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FISCAL IMPACT STATEMENT

LS 6922

BILL NUMBER: SB 381

NOTE PREPARED: Jan 5, 2010

BILL AMENDED:

SUBJECT: Gaming Revenues.

FIRST AUTHOR: Sen. Leising

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Riverboat Wagering Tax:* The bill provides that the riverboat wagering tax is calculated using taxable receipts. It defines "taxable" receipts for riverboats as adjusted gross receipts minus amounts paid as promotional allowances.

Racino Slot Machine Wagering Tax: The bill provides that the slot machine wagering tax is calculated using taxable receipts. It defines taxable receipts for racinos as adjusted gross receipts minus the sum of a racino's promotional allowances and amounts paid to support the horse racing industry, the county in which the casino is located, and the French Lick Casino.

The bill provides that a racino licensee is entitled to a refund of part of the slot machine wagering taxes remitted between June 1, 2008, and October 1, 2009. It provides that a refund is payable in 12 annual installments and makes an appropriation for this purpose.

Horse Racing Funds: The bill reduces the amount of a racino's adjusted gross receipts set aside for horse racing from 15% to 10%. It also removes adjustments for inflation from the \$85,000,000 cap on the amounts set aside for horse racing.

Table Games at Racinos: The bill authorizes table games at racinos. It also imposes a tax on adjusted gross table game receipts at the rate of 25% and requires the taxes to be deposited in the state General Fund.

Other: The bill also repeals an obsolete definition.

Effective Date: Upon passage; May 1, 2010; July 1, 2010.

Summary of NET State Impact: The estimated net impact to the state General Fund from the riverboat casino and racino tax changes and the provision to refund slot machine wagering tax to the racinos is specified in the table below:

	FY 2011	FY 2012
Revenues	(\$96.4 M - \$151.2 M)	(\$97.8 M - \$152.9 M)
Expenditures	\$3.5 M - \$4.3 M	\$3.8 M - \$4.6 M
Net Increase (Decrease)	(\$99.9 M - \$155.5 M)	(\$101.6 M - \$157.5 M)

Explanation of State Expenditures: Summary: The bill would increase expenditures from the state General Fund to: (1) provide slot machine wagering tax refunds to the racinos; and (2) replace additional riverboat admissions tax reductions as live table game operations at the racinos displace table game activity at competing riverboat casinos. The additional expenditures are summarized in the table below.

	FY 2011	FY 2012
Slot Machine Wagering Tax Refund	\$3.5 M - \$4.3 M	\$3.5 M - \$4.3 M
Additional Riverboat Admission Tax Replacement	\$0	\$250,000
Subtotal	\$3.5 M - \$4.3 M	\$3.8 M - \$4.6 M

Slot Machine Wagering Tax Refund: The bill provides that the slot machine wagering tax liability of each racino is to be recalculated for the period June 1, 2008, to October 1, 2009, allowing deductions from the racinos AGR for the following: (a) certain promotional allowances paid by the racinos to gambling patrons; (b) the county slot machine wagering tax paid by the racinos; (c) the supplemental slot machine wagering tax paid by the racinos; and (d) the required payment of receipts by the racinos to the horse racing industry. The bill requires the difference between the tax amount actually remitted during this period and the recalculated tax amount to be refunded to each racino in 12 annual installments beginning September 1, 2010. The bill provides for an annual appropriation to pay the annual installments.

Riverboat Admission Tax Replacement: It is estimated that operation of live table games at the racinos would displace table game activity at competing riverboat casinos. (See discussion of Table Games provisions under *Explanation of State Revenues*.) It is estimated that the resulting shift of patrons from riverboat casinos to the racinos would reduce riverboat admission tax distributions to the Division of Mental Health, the State Fair Commission, and local units by about \$250,000 in FY 2011 and \$340,000 in FY 2012. Under current statute, these revenue shortages would be replaced via transfers from the state General Fund in the fiscal year following the fiscal year of the shortage.

Explanation of State Revenues: Summary: The bill makes a number of changes to state law relating to the riverboat casinos and racinos. The estimated impact on state revenue is summarized in the table below.

	FY 2011	FY 2012
State General Fund Revenue		
Riverboat Wagering Tax	(\$77.2 M - \$124.2 M)	(\$77.3 M - \$124.3 M)
Riverboat Admission Tax	(\$70,000)	(\$95,000)
Slot Machine Wagering Tax	(\$33.2 M - \$41.0 M)	(\$35.0 M - \$43.1 M)
Table Game Tax	\$14.1 M	\$14.6 M
Subtotal	(\$96.4 M - \$151.2 M)	(\$97.8 M - \$152.9 M)
State Breed Development Funds Revenue		
Racino Required Payment to Horse Racing	(\$9.2 M)	(\$9.5 M)
Grand Total	(\$105.6 M - \$160.4 M)	(\$107.3 M - \$162.4 M)

Riverboat Wagering Tax Deduction: The bill reduces the taxable base for the riverboat wagering tax beginning in FY 2011 by allowing a deduction for certain promotional allowances paid by the casino to gambling patrons. It is estimated that this change could reduce state revenue from the wagering tax by \$72.5 M to \$119.5 M annually beginning in FY 2011. (Note: This revenue loss total includes reductions in the wagering tax revenue that would otherwise be paid to the West Baden Springs Historic Hotel Preservation and Maintenance Fund, but will start flowing to the state General Fund in FY 2011 when the principal balance in the Hotel Fund is expected to reach \$20 M.) The revenue loss estimate assumes that levels of promotional free play provided by the riverboat casinos and racinos currently range from about 9% to about 15% of their adjusted gross receipts (AGR) from gaming. Some of the revenue loss from the promotional allowance deduction could be offset if the deduction induces additional promotional spending by the casinos and racinos, which in turn increases the aggregate amount of spending by gamblers in the state.

Racino Slot Machine Wagering Tax Deductions: The bill reduces the taxable base for the racino slot machine wagering tax beginning in FY 2011 by allowing deductions for the following: (a) certain promotional allowances paid by the racinos to gambling patrons; (b) the county slot machine wagering tax paid by the racinos; (c) the supplemental slot machine wagering tax paid by the racinos; and (d) the required payment of receipts by the racinos to the horse racing industry. It is estimated that these deductions could reduce state revenue from the slot machine wagering tax by \$31.7 M to \$39.5 M in FY 2011 and \$33.4 M to \$41.5 M in FY 2012. The revenue loss estimate assumes that levels of promotional free play provided by the riverboat casinos and racinos currently range from about 9% to about 15% of their AGR from gaming. Some of the revenue loss from the promotional allowance deduction could be offset if the deduction induces additional promotional spending by the casinos and racinos which in turn increases the aggregate amount of spending by gamblers in the state.

Table Games at Racinos: The bill allows the racinos to operate up to 90 live table games each, potentially beginning in FY 2011. The bill also imposes a new tax on the live table games at the racinos equal to 25% of the table game AGR. (Note: AGR is equal to total wagers by gamblers minus winnings paid to gamblers). It is estimated that the table games tax could potentially generate about \$14.1 M in FY 2011 and \$14.6 M in FY 2012. The FY 2011 estimate assumes a full year of live table game operations at both racinos. Estimates for both years assume that the table game AGR generated at the racinos will be roughly the median achieved by the riverboat casinos.

It is estimated that live table game operations at the racinos could displace: (1) some gambling on virtual table games currently operated by the racinos; and (2) gambling on table games at competing riverboat casinos. The displacement of virtual table game activity would reduce slot machine wagering tax revenue from virtual table games due to differential in the marginal wagering tax rate and the table games tax rate. Assuming virtual table games generate about 7% of the AGR at the racinos now and assuming that half of that activity would shift to live table games, the loss of revenue from the slot machine wagering tax could total about \$1.5 M in FY 2011 and about \$1.6 M in FY 2012. (Note: These totals are reflected in the table above as revenue loss from the slot machine wagering tax along with the revenue loss from the promotional allowance and tax and payment deductions.)

Displacement of table game activity at competing riverboat casinos would reduce revenue from the riverboat wagering tax and the riverboat admissions tax. It's estimated that about 28% of the racino AGR from slot machines was displaced from riverboat casinos. If that share holds for table games, it is estimated that the reduction in riverboat wagering tax could total about \$4.7 M in FY 2011 and \$4.8 M in FY 2012. (Note: These totals are reflected in the table above as revenue loss from the riverboat wagering tax along with the revenue loss from the promotional allowance deduction.) The reduction in admissions tax to the state General Fund is estimated to total about \$70,000 in FY 2011 and \$95,000 in FY 2012.

Reduction in Racino Required Payment to Horse Racing: The racinos are required to pay 15% of their annual slot machine AGR to the following purposes: (a) the state Gaming Integrity Fund; (b) the state Breed Development Funds; (3) private horsemen's associations; and (d) horse racing purses. It is estimated these payments could total \$65.2 M in FY 2011 and \$67.4 M in FY 2012. The bill reduces the required payment to 10% of annual slot machine AGR beginning in FY 2011. It is estimated that this change would reduce the total annual payment from the racinos by \$21.7 M in FY 2011 and \$22.5 M in FY 2012. The reduction would not affect the payments to the state Gaming Integrity Fund, but would reduce revenue to the state Breed Development Funds, which are administered by the Indiana Horse Racing Commission. The table below summarizes the revenue loss from reducing the required payment percentage.

	FY 2011	FY 2012
Thoroughbred Breed Development	(\$3.9 M)	(\$4.0 M)
Standardbred Breed Development	(\$4.8 M)	(\$5.0 M)
Quarter Horse Breed Development	(\$506,000)	(\$523,000)
Subtotal	(\$9.2 M)	(\$9.5 M)
Horsemen's Associations/Purse Supplements	(\$12.5 M)	(\$12.9 M)
Grand Total	(\$21.7 M)	(\$22.5 M)

Explanation of Local Expenditures:

Explanation of Local Revenues: *Summary:* The reduction in the tax base for the riverboat wagering tax due to the promotional allowance deduction is estimated to result in revenue losses to certain local units. The potential revenue losses that local units could incur beginning FY 2011 are described in the table below.

Local Unit	Wagering Tax
Gary	(\$0.7 M - \$1.8 M)
Michigan City	(\$1.1 M - \$1.8 M)
Rising Sun	(\$0.4 M - \$0.9 M)
Orange County	(\$0.2 M - \$0.4 M)
Orleans	(\$0.1 M - \$0.2 M)
Paoli	(\$0.1 M - \$0.2 M)
French Lick	(\$0.2 M - \$0.3 M)
West Baden Springs	(\$0.2 M - \$0.3 M)
Orange County Development Commission	(\$0.2 M - \$0.3 M)
Orange County CVB	(\$12,000 - \$20,000)
Total	\$3.3 M - \$6.1 M

A local unit that is a docksite for a riverboat casino (other than local units receiving wagering tax revenue from the French Lick Casino) receive 25% of the wagering tax generated by the riverboat casino up to a maximum of the distribution amount the local unit received in FY 2002. In the case of the riverboat casinos in Gary, Michigan City, and Rising Sun, wagering tax revenue is estimated to decline under one or both scenarios by an amount sufficient that the 25% share is less than the cap amount. The local units receiving wagering tax revenue from the French Lick Casino all receive a fixed percentage of this revenue. Therefore, the revenue declines due to the promotional allowance deduction would reduce the revenue to these local units.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Gary, Michigan City, Rising Sun, local units receiving riverboat wagering tax paid by the French Lick Casino.

Information Sources: Revenue Technical Committee Forecast (December 15, 2009); Pennsylvania Gaming Control Board, Gaming Revenue Reports, FY 2007-FY 2010; New Jersey Casino Control Commission, Monthly Schedule of Promotional Expenses and Allowances, CY 2009.

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